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TAGS: [ECON](#) [EPET](#) [IZ](#)  
SUBJECT: OIL MINISTER ON HYDROCARBON LAW

Classified By: CETI Ambassador Charles Ries, reasons 1.4 b,d

¶1. (C) SUMMARY: Oil Minister Shahrستاني on November 26 agreed in principle to the idea of proceeding with a technical committee to clear up the few remaining brackets in the July draft of the hydrocarbon framework legislation, as long as the result is completely consistent with the principles of the February text and the field annexes are included. He emphasized his inability to work constructively with KRG negotiator Dr. Ashti Hawrami. He also discussed corruption issues and inquired about fuel imports from Kuwait. END SUMMARY.

Oil Minister Shahrستاني: A deal is possible  
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¶2. (C) Following up on previous conversations, Hussayn al-Shahrستاني told EMIN on November 26 that it was good to hear that KRG officials are willing to accept the principles of the February text of the hydrocarbon framework legislation using as a basis the July version (post-Shura Council review), but argued that the draft law would not secure enough votes in the Council of Representatives without the field appendices. Even the Sunni Tawafuq party, he said, might be willing to vote in favor of a law with the annexes, as long as there is also a clause limiting production sharing agreements (PSAs) to open bidding procedures, but the challenge remains Sistani's pronouncement that passage of the oil law must be unanimous (e.g., without rolling over the Sunnis).

¶3. (C) Shahrستاني explained the four annexes list which fields will be operated by the Iraq National Oil Company (INOC, to be re-established in another law) and which fields may be opened to outside investment and operation. The four annexes distinguish among fields that are:

- A: Discovered and producing,
- B: Discovered and non-producing, but near producing fields,
- C: Discovered, non-producing, but far from existing fields and infrastructure, and;
- D: New exploration blocks.

Lists A and B would be reserved for INOC, and C and D would be in principle available for PSAs. Shahrستاني commented that most of the Cs are in the KRG, and the 65 exploration blocks to be made available have a likely 70 percent success rate. He added that the annexes have been made available since December 2006 to the main players, and they should be able to be included with the hydrocarbon legislative package without any changes. Although he admitted the Council of Ministers did not include the annexes in their approval of the February version, he argued that the Ministry of Oil had already defined them at that point in time. The KRG is overstepping its boundaries by claiming rights to determine

the use of other provinces' fields, he heatedly argued, and the MoO is not going to back down on the annexes. He also agreed the Revenue Management Law could be presented for CoR consideration at the same time as the rest of the legislative package.

¶4. (C) Shahrستاني said the role of the KRG's lead negotiator, Dr. Ashti Hawrami, makes closure very difficult unless Dr. Ashti is taken out of the picture. He thought the text is ready, but agreed a technical review would be useful.

¶5. (C) Shahrستاني began to complain about the new KRG contracts, claiming that the February agreement does not allow the KRG to enter into new contracts, and only provides for review of contracts entered into prior to the adoption of the draft. (NOTE: Both the February and the July versions allow for review of KRG contracts concluded before the law enters into force. END NOTE). When pressed, Shahrستاني acknowledged his previous position: that the contracts would need to be reviewed by the entity to be set up for that purpose in the draft law, namely, the Federal Oil and Gas Council. However, he said the negotiations had been predicated upon the KRG not concluding new contracts. (Comment: The Minister makes a valid point; the KRG had agreed in a side letter that it would not sign any contracts before the hydrocarbon law was signed, but with the caveat that this agreement would expire on May 31, 2007 if the law was not passed by then. The law was not passed, and the KRG resumed negotiating and signing PSAs this past summer. End comment).

¶6. (C) Shahrستاني added that MoO officials were discussing with major international oil companies the terms of technical service agreements, which he thinks may be concluded before year end. He plans on announcing oil revenue figures shortly to the press. He has heard that KRG PM Nechirvan Barzani will be visiting Baghdad soon to discuss various issues, including the oil law. He said he will be very interested to learn how large the KRG PSA signature bonuses had been, and who received them.

#### Corruption

¶7. (C) Shahrستاني explained the procedures for distributing fuel products from the refineries to the gas stations and the financial transactions involved. Pump stations pay for products to the MoO Director Generals for each province, who then post the money to the MoO's al-Rafidian Bank account. He claimed that practically no one buys gasoline from the street anymore because fuel supply is more ample and electrical demand (which needs fuel for private generators) is down. Corruption sometimes occurs at the point of sale, but the Ministry has put in place procedures to verify transactions (QUOTE: private eyes END QUOTE). By far the greatest corruption, and greatest source of insurgent revenue, comes from heavy fuel oil trucking operations, where drivers are forced to pay "transit fees" to militia members or other criminal elements. Another growing source of corruption is from fuel sold at subsidized prices to state-owned enterprises, the employees of which are finding that the resale of that fuel is more attractive than actually using it in the largely still-defunct SOEs.

¶8. (C) Shahrستاني therefore disagrees with MNF-I recommendations that he lower the price of HFO to induce more truckers to carry it away, since that would tend to increase the margin for shakedowns.

#### Fuel from Kuwait

¶9. (SBU) Shahrستاني inquired about the status of the gasoline fuel (benzene) supposedly sitting on the border in AIMS International trucks. When EMIN mentioned ongoing discussions, Shahrستاني swore that AIMS, which had taken over USD 12 million in transportation fees without delivering a single liter of fuel, has no chance of ever getting another contract in Iraq. SOMO Director General Falah al-Amiry

explained that AIMS was hoping for another contract extension, as long as it could use K Crossing point of entry both ways and the Coalition guaranteed security to the delivery point in Nasariyah. EMIN replied that Coalition Forces would not be willing to provide security, but the USG remains willing to discuss facilitating the delivery through the K Crossing.

¶10. (SBU) As he has done before, Shahrستاني expressed extreme skepticism that the benzene exists, or that AIMS would deliver it to the border if it had it. He suggested the "contract extension" request was a gambit by AIMS to avoid its responsibility for delivery of the 2006 benzene order.

¶11. (SBU) As for the 2007 order of diesel fuel for the Ministry of Electricity's needs, Shahrستاني did not seem up to date. SOMO DG Falah explained that almost all the logistics, badging, and visas were in place, but since the Kuwait Petroleum Company had had production problems in November, it was promising to begin supplying over one million liters per day starting the first of December.  
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